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SUBJECT: NIGERIA ECONOMIC UPDATE, MARCH 19

REF: 03 LAGOS 1690

1. (U) This update includes:

- Overland Links Inland Airports
- NEPA Improves Collection Efficiency
- GON to Revive Liquefied Petroleum Gas Sector

Overland Links Inland Airports

2. (U) Overland Airways now connects Abuja and Lagos to Nigeria's less frequented inland airports. Planes link Abuja to the southwestern cities of Ibadan, Ilorin, and Akure and ferry passengers between Abuja and Bauchi, a northeastern city expected to attract increasing numbers of tourists to the nearby Yankari Game Reserve.

3. (U) Overland's Managing Director, Captain Edward Boyo, says the company is taking a new approach to domestic transportation. The company's 18-seat Beech 1900D aircraft will ultimately link Nigeria's four corners to Abuja and Lagos in a sophisticated hub and spoke system, improving mobility and ease of travel and sparing passengers time-consuming inconveniences. Already, Ibadan residents no longer have to make the two-hour drive to Lagos to catch a flight to Abuja, and Ilorin and Akure residents can fly to Abuja without transiting Lagos. Boyo eventually hopes to acquire a fourth and fifth plane, achieve nationwide coverage, and construct a corporate aircraft maintenance facility outside Lagos (reftel).

NEPA Improves Collection Efficiency

4. (U) The Managing Director of Nigeria's National Electric Power Authority (NEPA), Joseph Makoju, said on March 18 that NEPA's collection efficiency improved from 50 to 75 percent over the last four months, a change due in part to the January 1 decentralization of the company's distribution sections. NEPA's revenue collection now averages N5 billion (\$37 million) per month. Makoju expects revenues to increase with the drive to install pre-payment meters in government establishments by the end of 2004 (despite criticism of recent installations at the legislative quarters in Abuja) and to ensure that all customers are metered by 2006.

5. (U) Makoju told EconSpec that NEPA plans to introduce a multi-year tariff order (MYTO) system to review the agency's tariffs at least once a year. This, he said, "would provide comfort to investors by ensuring that tariffs are indexed to changes in non-controllable costs, thereby guaranteeing 'real' returns on investments." When asked about the process of unbundling NEPA, Makoju said he expected the transmission section to become a semi-autonomous unit in April 2004, with the generating section unbundled by the fourth quarter.

GON to Revive Liquefied Petroleum Gas Sector

6. (U) The GON recently inaugurated a ten-man committee to devise a plan to revive the country's liquefied petroleum gas (LPG) sector. The Special Adviser to the President on Energy and Petroleum Matters, Edmund Daukoru, publicly stated that the need to revive the sector is driven by the high cost of imported LPG, or cooking gas. The Liquefied Petroleum Gas Marketers Association of Nigeria (LPGMAN) claims the GON loses N2.9 billion (\$21 million) annually from the import of LPG. Many LPG marketers claim that the 30 per cent import duty, 7 per cent port surcharge, and 5 per cent value added tax on imported LPG unduly raise prices and object to having to pay duties and taxes when oil importers do not. Nigeria imports LPG largely because it cannot convert enough of its natural gas to LPG.

Domestic supplies of LPG have contracted from 160,000 tons per year in the late 1980s to some 40,000 tons in 2002.

17. (U) Nigeria's LPG utilization for domestic and industrial purposes is relatively low. The GON seeks to bring per capita consumption levels in line with the West African average of 3.7 kg per year over the next five years. This, Daukoru says, would represent a seven-fold increase and could result in sales worth about N47 billion (\$348 million) annually. To facilitate the sector's growth, the GON plans to construct nine strategically located LPG storage depots and revamp the country's ailing refineries. The GON's ten-man steering committee will oversee these efforts and coordinate attempts to identify, appraise, and implement business development opportunities in the LPG sector. The committee will also promote and monitor the implementation of a domestic gas sector blueprint and assist in developing an LPG policy and a proper regulatory and institutional framework.

HINSON-JONES